



CITY OF LA PLATA, MISSOURI

YEAR ENDED JUNE 30, 2000

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2000-126
December 20, 2000
www.auditor.state.mo.us

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

December 2000

www.auditor.state.mo.us

The following problems were discovered as a result of an audit conducted by our office of the City of La Plata, Missouri.

The city relies heavily upon utility and refuse funds to subsidize the city's General, Dispatch, and Library funds. The city operates the General, Dispatch, and Library funds with deficit cash balances throughout the fiscal year, and then transfers utilities and refuse monies, as well as general sales tax revenues, to these funds at the end of the year. These transfers are usually recorded after the city's independent audit is completed.

The Electric, Water and Sewer, and Refuse funds are separate accounting entities designed to account for specific city activities. Utility and refuse revenues should be used to fund the operations of the respective utility and refuse services only. The existing utility and refuse rate structure has allowed the city to, in effect, levy additional taxes without a vote of the citizens. It appears the city has established higher than necessary utility and refuse rate structures in lieu of increasing general revenues or reducing services provided by the city. Without the continued subsidies from utility and refuse funds, the General, Dispatch, and Library funds would be in poor financial condition.

Although the General Fund generally maintains a large negative balance in the city's checking account, some General Fund monies are held in passbook savings accounts, one for the future purchase of a fire truck and the other for monies collected from the city's soda machines. The balances in the accounts at June 30, 2000, were approximately \$25,000 for the fire truck and approximately \$1,900 from the soda machines. Considering the large negative balances of the General Fund in the city's checking account, the board should consider using the monies in the passbook accounts to pay current obligations.

State law prohibits municipalities from budgeting a deficit balance. The city's budgeted disbursements for the year ended June 30, 2000, exceeded available resources by more than \$289,000, \$60,000, and \$8,700, for the General Fund, Dispatch Fund, and Library Fund, respectively. This resulted in budgeted deficit fund balances for these funds. In addition, the city's budget for the year 2001, ending June 30, includes disbursements that exceeded available resources for these funds.

City library monies are held in the custody of both the city and the Library Board. The city has custody of the library's property taxes, interest, grant receipts, operating revenues, and subsidies from other city funds. The Library Board only has custody of donations and memorial contributions received. There is no written agreement between the city and the Library Board to outline the responsibilities of each party. State law indicates all monies

(over)

YELLOW SHEET

received by the city for a city library shall be disbursed to the library board treasurer monthly and city library boards shall have exclusive control of the expenditure of library monies. If the city continues to provide certain accounting and other services to the Library Board, there should be a written agreement which describes the responsibilities of each party.

The city owns a fire station which is occupied by both the La Plata Volunteer Fire Department (LVFD) and the La Plata Rural Fire Protection Association (LRFPA). Other than a building rental agreement between the city and the LRFPA, there are no written agreements between the city and these entities which outline the rights and responsibilities of each party, and as a result, the city has little assurance that city monies and assets are only used to provide fire protection services to city residents. From July 1999 through May 2000, LRFPA and LVFD responded to 37 calls within the city limits and 42 calls outside the city limits. There have been no formal studies regarding the percentage of services provided to city and non-city residents, and other than the building rental agreement, the cost allocations between the city and these entities are based on informal verbal agreements.

The city of La Plata owns the land on which the city cemetery is located. The city allows the La Plata Cemetery Association (LCA) to maintain custody of all monies received for the preservation, care, upkeep, and adornment of the city cemetery, including money received from the sale of cemetery lots, and to make all decisions regarding the use of these monies. However, the city has not entered into a written agreement with the cemetery association defining the rights and responsibilities of each entity, and has not established procedures to ensure the LCA is in compliance with statutory requirements regarding the investment and use of cemetery monies. The city does not require the LCA to be audited or to provide financial reports to the board on a regular basis.

The city owns a golf course and a lake which are operated under the authority of the Park and Recreation Board. Board minutes were not retained for meetings prior to January 24, 2000. In addition, board minutes were not signed. Also, golf course receipts are transmitted to the city approximately once a week and receipts are not always kept in a secure location. Prior to transmittal, some receipts are kept in an unlocked box in an unlocked drawer. Weekly transmittal amounts for the month of June 2000 ranged from \$2,767 to \$5,735.

The city does not have a formal bidding policy. The decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. Although it appears the city did solicit bids for some purchases, bids were either not solicited or bid documentation was not retained for the purchases of a truck (\$23,350), water pipe (\$13,779), and water meters (\$11,463).

The Police Chief and City Collector accrue personal days, vacation leave, and sick leave. The city pays these elected officials for unused leave when they leave office. Annual salaries of city elected officials are set under state law and city ordinance. State law does not authorize compensated leave for elected officials. In addition, the city is not consistently following its leave accumulation policy. Some employees were allowed to exceed the maximum accumulations.

The duties of receiving, recording, reconciling, and depositing monies are not adequately segregated. The City Clerk, Deputy City Clerk, and City Collector collect money and issue receipt slips.

CITY OF LA PLATA, MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Board of Aldermen
City of La Plata
La Plata, Missouri 63549

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of La Plata, Missouri. Our audit of the city included, but was not limited to, the year ended June 30, 2000. The objectives of this audit were to:

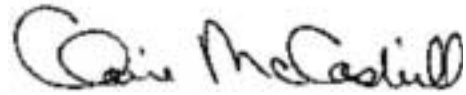
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to the auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of La Plata, Missouri.

A handwritten signature in dark ink, appearing to read "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

August 4, 2000 (fieldwork completion date)

Director of Audits:	Karen Laves, CPA
Audit Manager:	Mark Ruether, CPA
In-Charge Auditor:	Cheryl Colter, CPA, CGFM
Audit Staff:	Julie Vollmer

HISTORY AND ORGANIZATION

CITY OF LA PLATA, MISSOURI HISTORY AND ORGANIZATION

The city of La Plata is located in Macon County. The city was incorporated in 1881 and is currently a fourth-class city. The population of the city in 1990 was 1,401.

The city government consists of a mayor and a six-member board of aldermen. The six board members are elected for two-year terms. The mayor is elected for two years, presides over the board of aldermen, and votes only in case of a tie. The other elected officials have two-year terms, except the city marshal has a four-year term. The Mayor, Board of Aldermen, and other principal officials at June 30, 2000, were:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Compensation for the Year Ended June 30, 2000</u>	<u>Amount Of Bond</u>
Rich Rhea Jr., Mayor	April 2002	\$ 2,400	\$ 10,000
Darrell Green, Alderman	April 2001	660	0
Kerry Green, Alderman	April 2001	660	0
Jeff Hagar, Alderman	April 2001	660	0
Kevin East, Alderman	April 2002	660	0
Gerald Lovingier, Alderman (1)	April 2002	165	0
Lee Hall, Alderman/Mayor Pro-Tem	April 2002	660	10,000
Lois Bragg, City Collector (2)	April 2002	13,600	50,000
Stan East, Municipal Judge	April 2002	1,200	0
Leon Shears, Police Chief/ City Marshal (3)	April 2004	10,770	500
<u>Other Principal Officials</u>			
Becky Hansen, Court Clerk and Interim City Clerk/Treasurer (4)		16,945	50,000
Jeff Elson, City Attorney (5)		7,799	0
Jerry Thomas, Fire Chief		1,200	0
Delmont Senter, Electric Superintendent (6)		7,131	0
Linden Wood, Water and Sewer Superintendent		24,978	0
Greg Williams, Street Superintendent		24,081	0

(1) Elected in April 2000 to replace James Gladbach.

(2) Appointed to replace Teena Herleth who resigned in December 1999 to become City Clerk, and elected to a full term in April 2000. Compensation includes \$2,242 for serving as a city clerical worker prior to being appointed City Collector.

- (3) Appointed to replace Dexter Brookhart who resigned in December 1999, and elected to a full term in April 2000.
- (4) Appointed Interim City Clerk to replace Beverley Richardson who resigned in November 1999. Mrs. Hansen returned to her former position as Deputy Clerk when Teena Herleth was appointed City Clerk in December 1999. Mrs. Hansen was again appointed Interim City Clerk to replace Mrs. Herleth who resigned in June 2000. Compensation includes all payments to Mrs. Hansen for the year ending June 30, 2000, including \$1,200 for serving as Court Clerk for the entire fiscal year. Betty Wheeler was appointed Court Clerk in October 2000, and is paid on an hourly basis.
- (5) Compensation represents total payments to the City Attorney's law firm during the year ended June 30, 2000.
- (6) Appointed to replace Kelly Lyons who resigned in March 2000. Mr. Lyons had been appointed to replace Jeff Harris who resigned in August 1999.

In addition to the officials above, the city has seventeen full-time, six part-time, and nine seasonal employees.

Assessed valuation and tax rate information for 1999 are as follows:

ASSESSED VALUATION

Real estate	\$ 3,933,100
Personal property	2,229,830
Railroad and utilities	<u>275,680</u>
Total	\$ <u>6,438,610</u>

TAX RATE PER \$100 ASSESSED VALUATION

General Revenue	\$.83
Parks and Recreation	.19
Library*	<u>.19</u>
Total	\$ <u>1.21</u>

- * The La Plata City Library is a separate political subdivision; however, the library tax monies are in the custody of the city.

The city has a general sales tax of one percent of retail sales within the city.

MANAGEMENT ADVISORY REPORT

CITY OF LA PLATA, MISSOURI
SUMMARY OF FINDINGS

1. City Finances and Utility Rates (Pages 9-12)

During fiscal year 1999, the city used \$293,614 in utility and refuse revenues to pay for other city services. Electric and refuse user fees have not been set at a level consistent with the costs of providing the services and administrative costs have not been identified. The city does not generate sufficient unrestricted revenues to pay the expenditures incurred for the city's general operating funds. The Electric Fund was not reimbursed for a pickup truck transferred to the Street Department. Interest is not allocated to some funds maintained in the city's checking account. Some General Fund monies are held in passbook accounts, while the fund's checking account balance is negative.

2. Budgets and Financial Reporting (Pages 12-14)

Budgets did not include some information required by state law, deficit balances were budgeted for three funds, and disbursements exceeded budgeted amounts for four funds. The city's published financial statements are not sufficiently detailed and do not reflect some financial activity and indebtedness of the city.

3. Accounting Controls and Procedures (Pages 14-15)

Accounting duties are not adequately segregated, a \$50,000 certificate of deposit is not recorded on the city's general ledger, and the lists of meter deposits are not reconciled to the balances of the meter deposit funds.

4. Expenditures (Pages 15-16)

The city does not have a formal bidding policy, and receipt of goods is not always documented on invoices.

5. Personnel Policies and Procedures (Pages 16-17)

Time sheets are not always signed by the appropriate supervisor and do not indicate hours worked by activity. The city is not consistently following its leave accumulation policy and some elected officials are inappropriately allowed to accrue compensated leave benefits.

6. Park and Recreation Board Records and Procedures (Pages 17-19)

Controls over receipts need to be improved. Board minutes were not retained for meetings prior to January 2000, and minutes prepared after this date were not signed.

7. City Library (Page 19)

Library receipts are not disbursed to the Library Board Treasurer as required by state law, and the city has not entered into a written agreement with the Library Board.

8. City Cemetery (Pages 19-20)

The city has not entered into a written agreement with the La Plata Cemetery Association. The city does not require the association to provide complete financial reports to the Board of Aldermen on a regular basis and has not established procedures to monitor the cemetery association's compliance with state statutes.

9. Fire Protection Services (Pages 20-21)

The city has not entered into written agreements with the La Plata Volunteer Fire Department and the La Plata Rural Fire Protection Association.

CITY OF LA PLATA, MISSOURI
MANAGEMENT ADVISORY REPORT

1.	City Finances and Utility Rates
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- A. The city relies heavily upon utility and refuse funds to subsidize the city library and other city services. Transfers to the city's General, Dispatch, and Library Funds were made from the utility and refuse funds as follows:

Transfers	Year ended June 30,		
	1999	1998	1997
Electric Fund	\$ 148,637	250,179	221,843
Water and Sewer Fund	123,459	0	18,000
Refuse Fund	21,518	5,950	0
Total	\$ 293,614	256,129	239,843

The city operates the General, Dispatch, and Library Funds with deficit cash balances throughout the fiscal year, and then transfers utilities and refuse monies, as well as general sales tax revenues, to these funds at the end of the year to bring the cash balances to \$0. These transfers are usually recorded after the city's independent audit is completed. The independent audit for the year ended June 30, 2000, has not yet been completed and no transfers have been made for this fiscal year. At June 30, 2000, the net unrestricted cash balance of the General, Dispatch, Library, and Sales Tax Funds was a negative \$300,238, so it appears the city will need to transfer approximately \$300,000 from the utility and refuse funds to eliminate these negative balances.

City officials indicated that part of the utility and refuse transfers are to offset utility and refuse administrative costs, such as bookkeeping and billing costs, that are incurred from the General Fund; however, the city has not specifically identified any administrative costs.

The Electric, Water and Sewer, and Refuse Funds are separate accounting entities designed to account for specific city activities. Utility and refuse revenues should be used to fund the operations of the respective utility and refuse services only. Rates for electric, water, sewer, and refuse services should be set to cover the costs of producing and delivering services (including administrative costs), repaying bonds, and repairing and replacing equipment. These services should not generate profits to fund other services provided by the city. The transfers represented 15-18 percent of the total revenues of the utility and refuse funds.

The existing utility and refuse rate structure has allowed the city to, in effect, levy additional taxes without a vote of the citizens. Property taxes, sales taxes and other fees can be established or increased; but, these require a vote of the citizens.

It appears the city has established higher than necessary utility and refuse rate structures in lieu of increasing general revenues or reducing services provided by the city.

- B. Without the continued subsidies from utility and refuse funds, the General, Dispatch, and Library Funds would be in poor financial condition. Profits from the Electric, Water and Sewer, and Refuse Funds provided approximately 50 percent of the total monies available to operate the General, Dispatch, and Library Funds during the year ending June 30, 1999. In addition, the city owed \$37,314 from the General Fund on outstanding lease obligations for a tractor and a backhoe used by the Street Department, and a police car.

The Board of Aldermen needs to closely monitor the ongoing financial condition of the General Fund and the Dispatch Fund. In addition, the board should decide whether the city should continue to fund the operation of the city library, which is a separate political subdivision under the supervision of the Library Board of Trustees. The Board of Aldermen should develop a plan which will allow the city to operate without subsidies from utility and refuse funds. If the board desires to continue its current level of services, it must increase unrestricted revenues or reduce costs.

- C. In September 1999, the city transferred a three year-old pickup truck from the Electric Department to the Street Department. The General Fund, which funds the operations of the Street Department, did not reimburse the Electric Fund for the fair market value of the pickup truck. The pickup truck was purchased for \$21,193 in 1996, and the National Auto Dealers Association Appraisal Guide for July 2000 indicates a pickup truck of this year, make, and model, has a retail value in excess of \$10,000.

As indicated in Part A. above, utility fund assets should not be used to fund general city operations. The city should reimburse the Electric Fund from the General Fund for the fair market value of the pickup truck.

- D. The city maintains one interest bearing checking account. The interest revenue earned from this account (\$3,261 during the year ended June 30, 2000) is credited to the city's General Fund, instead of being allocated to the various funds which maintain monies in the account. Based on the balances of the various funds, it appears the majority of this interest should have been credited to the Electric Fund and Water and Sewer Fund.

Interest should be credited to the funds which generated the revenue. To ensure all city funds receive the appropriate amount of revenue, interest earned on the city's checking account should be allocated based on the balances maintained by the various funds in the account.

- E. Although the General Fund generally maintains a large negative balance in the city's checking account, some General Fund monies are held in passbook savings accounts. The city maintains a passbook account for unrestricted monies the board decided to save and reserve for the future purchase of a fire truck. Another passbook account is maintained for monies collected from the city's soda machines. The balances in these accounts were \$25,729 and \$1,985, respectively, at June 30, 2000. Considering the large negative balances of the General Fund in the city's checking account, the board should consider using the monies in the passbook accounts to pay current obligations.

WE RECOMMEND the Board of Aldermen:

- A&B. Set utility and refuse rates to cover only those costs necessary to provide the related utility and refuse services. In addition, the board should develop a plan to operate the General, Dispatch, and Library Funds without continued subsidies, and limit expenditures and transfers from utility and refuse funds to only those which are necessary to operate the utility and refuse services.
- C. Reimburse the Electric Fund from the General Fund for the fair market value of the pickup truck transferred from the Electric Department to the Street Department.
- D. Allocate the interest income earned on the city's checking account to the various funds maintained in the account.
- E. Consider closing the General Fund passbook accounts and transferring the money to the checking account to help offset the negative checking account balance of the fund.

AUDITEE'S RESPONSE

- A&B. *There is no statute or law prohibiting the transfer of revenues from one fund to another. Any increases in utility rates have not kept pace with the general rate of inflation and increases in the costs of providing utility services. According to Missouri Supreme Court decisions, fee increases required in order to maintain and cover increased costs of providing a service are not required to be approved at an election. The city does not believe that the residents of the community desire a tax increase or a reduction in the level of services provided to the public as recommended by the State Auditor.*
- C. *This vehicle and other city vehicles are used by more than one department, therefore, we do not intend to reimburse the Electric Fund for the cost of this particular vehicle. We will consider ways to reasonably allocate vehicle costs to the various funds.*
- D. *We concur.*

- E. *We concur. The General Fund passbook accounts were transferred into the checking account on August 23, 2000.*

AUDITOR'S COMMENT

A&B. We agree that fee increases to cover the costs of providing utility services generally do not require voter approval. However, the net result of the city's current practice is that the citizens of La Plata are paying higher than necessary utility rates to subsidize general city operations. As stated above, transfers represented 15-18 percent of the total utility and refuse funds revenues. While it is common for municipal governments to provide for a gross receipts tax on utility operations, it does not appear reasonable to expect the utilities to provide this amount of funding for general city operations.

2. Budgets and Financial Reporting

- A. The city's budgets did not comply with state law or were otherwise insufficient as follows:

1. The budgets did not reflect the actual beginning and projected ending fund balances, and did not include budget messages describing the important features of the budget and major changes from the preceding years.

Section 67.010, RSMo 1994, sets specific guidelines for the format of the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of city operations. A complete budget should include the beginning and projected ending balance for each fund and a budget message.

2. For year ended June 30, 2000, budgeted disbursements exceeded available resources by \$289,549, \$60,100, and \$8,750, for the General Fund, Dispatch Fund, and Library Fund, respectively, resulting in budgeted deficit fund balances for these funds. In addition, the city's budgets for the year ending June 30, 2001, include budgeted disbursements that exceeded available resources by \$306,365, \$57,500, and \$13,315 for the General Fund, Dispatch Fund, and Library Fund, respectively.

Section 67.010, RSMo 1994, prohibits municipalities from budgeting a deficit balance.

3. During the year ended June 30, 2000, the city approved disbursements in excess of budgeted amounts for various funds as follows:

<u>Fund</u>	<u>Budgeted Amount</u>	<u>Actual Disbursements</u>	<u>Actual over Budget</u>
Park and Recreation	\$ 154,850	214,102	59,252
Refuse	59,000	60,471	1,471
Electric	1,022,300	1,023,567	1,267
Library	22,250	23,237	987

The city did not prepare an amended budget or adopt a resolution authorizing the additional disbursements, nor did the city set forth any reasons for exceeding the budgeted amounts in the board minutes.

Section 67.040, RSMo 1994, requires political subdivisions to keep disbursements within amounts budgeted. If there are valid reasons which necessitate excess disbursements, a resolution should be adopted by the governing body setting forth the amount of the budget increase and the facts and reasons.

- B. The city's semi-annual financial statements published for the six months ending June 30, 2000, and December 31, 1999, only presented total receipts and disbursements, as well as transfers in, transfers out, and beginning and ending cash and investment balances. The various revenue sources and disbursement categories were not shown. In addition, the financial statements include combined balances by fund type (general, special revenue, and proprietary), instead of showing each fund separately. For example, the Electric, Water and Sewer, and Refuse Funds are combined into the proprietary fund type, instead of showing each fund separately.

The published financial statements did not report any indebtedness, even though the city had a \$239,000 note payable and approximately \$132,000 in capital lease obligations at June 30, 2000. In addition, the balance of a \$50,000 certificate of deposit was omitted from the cash and investment balances.

Section 79.160, RSMo 1994, requires the Board of Alderman to prepare and publish a full and detailed account of the receipts, disbursements, and indebtedness of the city. Because the publication of such financial statements is intended to provide information to citizens regarding the financial activity and condition of the city, the board should consider showing more detailed revenue and expenditure categories and separate amounts for each city fund.

WE RECOMMEND the Board of Aldermen:

- A. Prepare budgets containing all information required by state law and refrain from adopting deficit budgets. In addition, the board should ensure actual disbursements do not exceed budgeted amounts. If circumstances require disbursements in excess of amounts budgeted, a formal resolution should be adopted authorizing the additional disbursements and documenting the reasons.

- B. Publish complete, detailed semi-annual financial statements of all financial activity and indebtedness of the city.

AUDITEE'S RESPONSE

- A. *We concur. We will prepare and approve budget amendments as needed and make the appropriate changes to the next fiscal year's budget.*
- B. *We concur. More detail will be added to future published financial statements.*

3. Accounting Controls and Procedures
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- A. The duties of receiving, recording, reconciling, and depositing monies are not adequately segregated. The City Clerk, Deputy City Clerk, and City Collector collect money and issue receipt slips. The City Collector records receipts on the subsidiary accounts receivable records for utility and refuse fees and property taxes, and generates computerized reports indicating the amounts recorded. In addition, the City Collector makes deposits, reconciles receipts to deposits, and prepares reports which summarize and classify the various types of monies received. The City Clerk or Deputy City Clerk use the reports to record receipts on the city's financial records; however, they do not review the report and its supporting documentation to ensure all receipts are being deposited and accounted for properly.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and depositing monies from those of recording receipts and reconciling receipts to deposits. If proper segregation cannot be achieved, at a minimum, procedures for adequate independent review should be established.

- B. In February 2000, the Parks and Recreation Board received a \$50,000 donation to be used for constructing a swimming pool. The \$50,000 was invested in a certificate of deposit in the city's name which is not recorded on the city's general ledger. To ensure all city monies are accounted for, all city monies should be recorded on the general ledger.
- C. The city maintains lists of water and electric customers' meter deposits held by the city; however, the lists are not reconciled to the balances of the meter deposit funds. At June 30, 2000, the balances of the Electric Meter Deposits Fund and the Water Meter Deposits Fund, excluding interest, were \$909 and \$629, respectively, less than the totals recorded on the city's lists. The meter fund balances as of June 30, 1999, agreed to the city's lists for that same date, so it appears the differences occurred during the year ended June 30, 2000.

The city should ensure its meter deposit records are complete and accurate by periodically reconciling the meter deposit fund balances to the totals on the meter deposit lists. Differences should be investigated and resolved.

WE RECOMMEND the Board of Aldermen:

- A. Segregate the duties of receiving and depositing monies from those of recording and reconciling receipts. If proper segregation cannot be achieved, procedures for independent reviews of the accounting records should be established.
- B. Ensure all city monies are recorded on the general ledger.
- C. Periodically reconcile the lists of water and electric meter deposits to the balances of the meter deposit funds. Any significant differences should be investigated and resolved.

AUDITEE'S RESPONSE

- A. *We concur. Based on standard accounting principles, several changes have already been made that the board feels appropriate and necessary for proper segregation of duties. The city would note that this is an accounting issue, and there has been no law violated.*
- B. *We concur. Based on standard accounting principles appropriate procedures have already been implemented. However, it is important to note that the audit found no evidence of misappropriation or missing funds and that there has been no violation of the law.*
- C. *We concur. A thorough investigation of the deposits on file was done prior to the state audit. The utility computer was updated to reflect correct deposits on file, however the accounting program was not updated. We will make appropriate adjustments to the meter deposit funds. In the future, we will perform regular reconciliations of the meter deposit funds. The city would note that this is an accounting issue, and there has been no violation of the law.*

4. Expenditures

- A. The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. Although it appears the city did solicit bids for some purchases, bids were either not solicited or bid documentation was not retained for the purchases of a truck (\$23,350), water pipe (\$13,779), and water meters (\$11,463).

Formal bidding procedures provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are

given an opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reason noted why the bid was selected.

- B. Receipt of goods or services is not always indicated on the invoice prior to an expenditure being approved for payment. Documentation of the receipt of goods or services is necessary to ensure the city actually received the items or services being paid.

WE RECOMMEND the Board of Aldermen:

- A. Establish formal bidding policies and procedures and retain all bid documentation.
- B. Ensure the receipt of goods is indicated on invoices prior to being approved for payment.

AUDITEE'S RESPONSE

- A. *The city is in the process of establishing a bidding policy. The city would note that there is no state law requiring or mandating the adoption of such a bidding policy and thus no law has been violated.*
- B. *We concur. This is a practice already established through purchase orders and verbal confirmation of goods or services received. Signatures of department supervisors will be required on packing slips or invoices in the future.*

5. Personnel Policies and Procedures

- A. Department supervisors complete daily reports indicating the number of hours each of their assigned employees worked for each city department. The City Clerk uses the daily reports to allocate salaries and fringe benefits to the appropriate funds. The daily reports are not signed by the preparers or the employees, and are not approved by the supervisors of the other departments to which hours were charged. Time sheets are prepared but are not always signed by the appropriate supervisor and do not indicate the hours worked for each department.

Time sheets which indicate the hours worked for each department should be prepared by each employee and approved by each applicable supervisor. This helps ensure that payroll costs are charged to the appropriate funds.

- B. The city is not consistently following its leave accumulation policy. Some employees were allowed to exceed the maximum accumulations. One employee's sick leave balance exceeded the maximum accumulation by three and one-half days and two other employees' vacation leave balances exceeded the maximum by twenty hours and nineteen hours, respectively. The city should follow its leave accumulation policy to ensure equitable treatment for all employees. Any exceptions to the policy should be approved by the Board of Aldermen.
- C. The Police Chief and City Collector accrue personal days, vacation leave, and sick leave. The city pays these elected officials for unused leave when they leave office. Annual salaries of city elected officials are set under state law and city ordinance. State law does not authorize compensated leave for elected officials.

WE RECOMMEND the Board of Aldermen:

- A. Require employees to prepare time sheets which include actual hours worked for each city department. The time sheets should be approved by all applicable supervisors to help ensure employee salary costs and fringe benefits will be properly allocated to the appropriate funds.
- B. Ensure employees are not allowed to accumulate leave balances in excess of the maximum allowed by city personnel policy. Any exceptions to the policy should be approved by the Board of Aldermen.
- C. Discontinue the practice of providing compensated absence benefits to elected officials.

AUDITEE'S RESPONSE

- A. *We concur. New time sheets have already been adopted that meet all the necessary requirements to appropriately allocate salaries and fringe benefits to the appropriate funds at the time of payroll.*
- B. *We concur. A personnel policies and procedures manual is in the process of being reviewed with changes being made that the board feels are appropriate based on cost benefit analysis and the best interest of the citizens and employees of the city of La Plata. It is important to note that no law has been violated.*
- C. *We concur. This practice has already been discontinued.*

6. Park and Recreation Board Records and Procedures
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The city owns a golf course and a lake which are operated under the authority of the Park and Recreation Board. Our review noted the following concerns:

- A. Board minutes were not retained for meetings prior to January 24, 2000. Minutes of board meetings should be retained to reflect such public decisions as bidding, contracting, and other significant matters.

In addition, board minutes were not signed. The board minutes should be signed by the board secretary as preparer and board president to provide an independent attestation that the minutes are a correct record of the matters discussed and action taken during the board's meetings.

Section 610.020, RSMo Cumulative Supp. 1999, requires minutes of meetings to be retained by public governmental bodies. Besides being required by state law, minutes provide an official record of board actions and decisions.

- B. The method of payment received (cash, check, credit card) is not recorded on receipt slips issued at the golf course and the lake. To ensure all receipts are properly recorded and deposited, the method of payment received should be indicated on all receipt slips, and the composition of receipt slips should be reconciled to the composition of monies remitted to the city.
- C. Golf course receipts are transmitted to the city approximately once a week and receipts are not always kept in a secure location. Prior to transmittal, some receipts are kept in an unlocked box in an unlocked drawer. Weekly transmittal amounts for the month of June 2000 ranged from \$2,767 to \$5,735. To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, receipts should be kept in a secure location and transmitted to the city daily or when accumulated receipts exceed \$100.

WE RECOMMEND the Park and Recreation Board:

- A. Ensure minutes are retained for all meetings and signed by the board secretary and board president to attest to their completeness and accuracy.
- B. Require the method of payment be recorded on all receipt slips and the composition of receipts be reconciled to the composition of monies transmitted to the city.
- C. Keep monies in a secure location and transmit receipts to the city daily or when receipts exceed \$100.

AUDITEE'S RESPONSE

- A. *We concur. Procedures for assuring that appropriate minutes and documentation have already been established and are currently being practiced. Minutes will be maintained in the vault at City Hall.*

B&C. We concur. Based on standard accounting principles, procedures will be established based on cost benefit analysis. However, it is important to note that this is an accounting issue, and there is no evidence of misappropriation or missing funds and no law has been violated.

7.	City Library
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City library monies are held in the custody of both the city and the Library Board. The city has custody of the library's property taxes, interest, grant receipts, operating revenues, and subsidies from other city funds. The Library Board only has custody of donations and memorial contributions received. The Board of Aldermen approves disbursements from the Library Fund within the city treasury and approves the library's annual budget. The city also maintains the library's payroll records. The Library Board approves disbursements of monies held in its custody. There is no written agreement between the city and the Library Board to outline the responsibilities of each party.

Section 182.200, RSMo Cumulative Supp. 1999, indicates all monies received by the city for a city library shall be disbursed to the library board treasurer monthly and city library boards shall have exclusive control of the expenditure of library monies.

WE RECOMMEND the Board of Aldermen and Library Board ensure all statutory provisions applicable to city library boards are being met. If the city continues to provide services to the Library Board, these services should be documented in written agreements.

AUDITEE'S RESPONSE

We concur. Changes are in the process of being made that the board and City Attorney feel are appropriate based on cost benefit analysis, the best interest of the citizens of La Plata, and state statutes.

8.	City Cemetery
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The city of La Plata owns the land on which the city cemetery is located. The city allows the La Plata Cemetery Association (LCA), a benevolent corporation, to maintain custody of all monies received for the preservation, care, upkeep, and adornment of the city cemetery, including money received from the sale of cemetery lots, and to make all decisions regarding the use of these monies; however, the city has not entered into a written agreement with the cemetery association defining the rights and responsibilities of each entity, and has not established procedures to ensure the LCA is in compliance with statutory requirements regarding the investment and use of cemetery monies.

Section 140.040, La Plata City Code, requires all money received from the sale of cemetery lots to be paid into the city treasury to be expended under the direction of the

Board of Aldermen in maintaining, beautifying and improving the cemetery. Section 79.430, RSMo 1994, indicates cities and their officers have jurisdiction over city cemeteries. Chapter 214, RSMo 1994, includes provisions governing the operation of public cemeteries.

The city does not require the LCA to be audited or to provide financial reports to the board on a regular basis. The last financial report the LCA submitted to the board was for the year ending December 31, 1998. The report indicated the LCA had a checking account balance of \$43,312 at January 1, 1998, received \$28,587, disbursed \$26,935, and had a checking account balance of \$44,964 at December 31, 1998, but it did not list the balances of the LCA's other bank accounts. At June 30, 2000, the LCA was holding over \$400,000, in a money market account, a savings account, and certificates of deposit. In addition, the custodian of these funds is not bonded.

If the city plans to continue allowing the LCA to control cemetery monies, the city should obtain a written agreement documenting the rights and responsibilities of each entity. The agreement should require the LCA to provide complete financial reports to the city on a regular basis and require bonding of the custodian of cemetery funds. The city should establish procedures to ensure the cemetery is operated in compliance with Chapter 214, RSMo 1994. Also, the city should review Section 140.040, La Plata City Code, make any necessary revisions, and ensure the city complies with the city code.

WE RECOMMEND the Board of Aldermen obtain a written agreement with the La Plata Cemetery Association to ensure the rights and responsibilities of all parties are specifically outlined. The agreement should require the cemetery association to provide complete financial reports to the board periodically and require bonding of the custodian of cemetery funds. In addition, the board should establish procedures to ensure the cemetery is operated in compliance with state law. The board should also consider updating the codification of city ordinances to help ensure all ordinances are current, reflect the board's intentions, and are complied with.

AUDITEE'S RESPONSE

We concur. Changes are in the process of being made that the board and City Attorney feel are appropriate based on cost benefit analysis and state statutes.

9. Fire Protection Services

The city owns a fire station which is occupied by both the La Plata Volunteer Fire Department (LVFD) and the La Plata Rural Fire Protection Association (LRFPA). These entities are both not-for-profit corporations. Other than a building rental agreement between the city and the LRFPA, there are no written agreements between the city and these entities which outline the rights and responsibilities of each party, and as a result, the city has little assurance that city monies and assets are only used to provide fire protection services to city residents.

The LVFD serves the city and other areas within a radius of approximately ten miles from the fire station. The operating expenses of the LVFD are paid by the city, and the LVFD also receives money from fundraising activities. During the year ended June 30, 2000, the city paid approximately \$34,000 for personal service and other operating costs of the LVFD. Most of the equipment used by the LVFD is owned by the city.

The LRFPA provides services to areas outside the city limits. Its operations are funded mostly from dues received from its members. The LRFPA owns most of its own equipment, except for a tanker truck which is jointly owned by the city and the LRFPA. The LRFPA reimburses the city for one-half of the operating costs of the tanker, and the LRFPA also makes building rental payments to the city.

The same person serves as the fire chief for both organizations, and most firefighters serve for both organizations. From July 1999 through May 2000 (which is the most recent data provided by the fire chief), these organizations responded to 37 calls within the city limits and 42 calls outside the city limits. There have been no formal studies regarding the percentage of services provided to city and non-city residents, and other than the building rental agreement, the cost allocations between the city and these entities are based on informal verbal agreements.

WE RECOMMEND the Board of Aldermen conduct a formal analysis of the fire protection costs incurred by the city, the LVFD, and the LRFPA, and determine the percentage of costs related to residents and property within the city limits. The city should enter into written agreements with the LVFD and LRFPA which clearly document the costs to be paid by each entity and the rights and responsibilities of each party.

AUDITEE'S RESPONSE

We feel this is not a major issue and the public benefits greatly by these services. Periodic review of the relationships between the city and the LRFPA and LVFD will be done. Any changes in regard to fire protection services will be made based on cost benefit analysis and the welfare of the citizens of the City of La Plata.

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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